VLTAVA FUND

Dear Shareholders

You are holding in your hands the first annual report of the VLTAVA Fund SICAV Plc ("the Fund"). It is our pleasure to present you with the results of the Fund's first calendar year of operations.

We launched the Fund on 1 September 2004 with the initial price of 1,000 Czech Koruna (CZK) per share. At the end of 2004, after four months of operations, the price per share was CZK 1,085.99, which reflects the NAV growth of 8.6%. This is a very good start and a very good result and we are certainly very pleased with it. Please keep in mind, however, that four months is a very short time in investment terms. After just four months we cannot say whether our results are so good because we are so smart or because we are lucky. To differentiate between skill and luck takes several years, at least. We believe that the quality of an investment manager really begins to show only after 3-5 years. So please look upon our initial results conservatively, as we do.

Our long-term goal remains unchanged. We aim to achieve, on average, a 10% annual return. A goal is one thing, of course, but reality can be something quite different. The fact that we have so far outperformed our goal by a wide margin is no assurance that we will achieve our goal in future. What we can guarantee is a firm commitment to our investment strategy and a careful and conservative approach to investing.

We began in September with assets of CZK 192.2 million, and, due to the NAV growth and new subscriptions, we finished 2004 with net assets of CZK 227.7 million.

Since this is our first annual report, we would like to spell out here the main principles governing our investments:

1. We do not believe in an efficient market.
The most common and still dominant approach to investing is based on an assumption that the market is efficient, that stocks are appropriately priced and that it is not possible therefore systematically to beat the market.

We do not share this view. On the contrary, we believe that the market is rather inefficient and that it is possible to find undervalued or overvalued stocks at any time. We aim to exploit these inefficiencies in our investment approach.

2. We do not use indexing or benchmarks.
In accordance with our belief in market inefficiencies, we do not follow any index and do not use benchmarks. Our view is that to rely upon a benchmark for guidance significantly predetermines investment results and ties the hands of the investor. To use a benchmark would be to contradict our goal of exploiting market inefficiencies. It would not be our intent to buy or sell a stock, for example, just because it is in or is dropped from a benchmark. We also believe that it should not be our goal to try and match the return of a benchmark; rather it should be to help cover the future liabilities of our investors. We think in terms of absolute, not relative, returns.

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3. We do not measure risk by volatility.
We believe that the concept of using volatility as a measure of risk is inappropriate. We do not think that the risk of not having a stock that goes up is the same as the risk of having too much of a stock that goes down. We define risk as the probability of losing the invested amount. Therefore we apply a bottom-up approach in stock selection and try to buy stocks at prices well below their intrinsic values. The bigger the difference between a stock's price and its intrinsic value, the better. This is our way of managing investment risk.

4. We do not diversify beyond sensible limits.
We would not buy stocks that we do not like just to decrease the portfolio weight of stocks we do like. We consider too much diversification a bad thing that has a negative effect on returns. We believe that an investor can only achieve excellent results with a relatively concentrated portfolio. This approach forces us to think long and hard before making an investment.

5. We do not want to be the victims of market movements.
We do not believe that we can time the market, and, at the same time, we consider the markets today to have a mixed rather than generally attractive outlook. Therefore we use both long and short positions. We are long on individual stocks and short for the market as a whole. This reduces our dependence on the market's behaviour and increases reliance on our ability to realise alpha by selecting stocks that will perform better than average.

6. We do not play currencies.
We cannot successfully play currencies, and we do not play them. It is not our intention to expose the fund to currency fluctuations. We automatically hedge most of the currency risk back into the Fund's base currency, the Czech Koruna.

7. We put all of our efforts into the selection of good stocks at the right prices.
We realise that our investment results are most dependent upon our ability to select good stocks at good prices. Therefore we apply a very well defined and strict method for stock selection. We recognise the importance of investment discipline and the danger of style drift. We have designed our selection method with these facts in mind.

8. We have no short-term goals.
We do not set for ourselves short-term investment goals. We regard short-term goals as often in conflict with long-term goals and thus as decreasing investment returns. Our focus on absolute returns while ignoring benchmarks and volatility allows us to think exclusively about the long-term horizon. Everything we do is directed toward long-term goals. We are quite happy to wait patiently until some of the stocks we own "wake up".

Daniel Gladis